

**REPORT OF THE AUDIT OF THE
FRANKLIN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FRANKLIN COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Franklin County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$93,029 from the prior year, resulting in excess fees of \$77,667 as of December 31, 2011. Revenues increased by \$94,059 from the prior year and expenditures increased by \$187,088.

Report Comments:

- 2011-01 The Sheriff Should Improve Controls Over Cash Used For Drug Buys
- 2011-02 The Sheriff Should Ensure That Gasoline Charges Are Verified For Reasonableness And That The Review Is Documented
- 2011-03 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Receipts And Bank Reconciliations

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ted Collins, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees -regulatory basis of the Sheriff of Franklin County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2012 on our consideration of the Franklin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Ted Collins, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The Sheriff Should Improve Controls Over Cash Used For Drug Buys
- 2011-02 The Sheriff Should Ensure That Gasoline Charges Are Verified For Reasonableness And That The Review Is Documented
- 2011-03 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Receipts And Bank Reconciliations

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Franklin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

November 20, 2012

FRANKLIN COUNTY
PAT MELTON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Federal Grants		\$	12,092
State Fees For Services:			
Finance and Administration Cabinet	\$	100,402	
Cabinet for Health and Family Services		49,903	150,305
Fiscal Court			660
County Clerk - Delinquent Taxes			94,922
Commission On Taxes Collected			842,221
School Board-Resource Office Salary Support			109,104
Fees Collected For Services:			
Auto Inspections		16,655	
Accident and Police Reports		2,035	
Serving Papers		100,206	
Transporting Prisoners		3,486	
Carrying Concealed Deadly Weapon Permits		13,325	135,707
Other:			
Miscellaneous		7,592	
Donation-City of Frankfort		46,000	
Add On Fees		84,948	138,540
Interest Earned			1,951
Total Revenues			1,485,502

Expenditures

Operating Expenditures and Capital Outlay:	
Personnel Services-	
Deputies' Salaries	958,990
Contracted Services-	
Advertising	169
Vehicle Maintenance and Repairs	10,113
Materials and Supplies-	
Office Materials and Supplies	15,554
Uniforms	20,779

The accompanying notes are an integral part of this financial statement.

FRANKLIN COUNTY
PAT MELTON, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2011
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay (Continued):

Auto Expense-		
Gasoline	\$	121,939
Maintenance and Repairs		32,748
Other Charges-		
Conventions and Travel		911
Dues		2,533
Postage		10,973
Out of State Transport		14,780
Training		9,563
Jury		186
Telephone		7,140
Bond		881
Capital Outlay-		
Office Equipment		64,171
Vehicles		48,600
		<hr/>
Total Expenditures		\$ 1,320,030
		<hr/>
Net Revenues		165,472
Less: Salary Paid To Sheriff	86,885	
Less: Training Incentive Benefit	920	87,805
	<hr/>	<hr/>
Excess Fees Due County for 2011		\$ 77,667
		<hr/>

The accompanying notes are an integral part of this financial statement.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 18.96 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.76 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Franklin County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Franklin County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Sheriff's Salary

The Franklin County Sheriff received his statutory maximum of \$86,438 plus \$447 for the two extra days he worked on January 1, 2011 and January 2, 2011. This resulted in an amended statutory maximum for the Franklin County Sheriff in 2011 of \$86,885, which was approved by the Department for Local Government.

Note 5. Confiscation and Forfeiture Account

The Franklin County Sheriff maintains an account for confiscated and forfeited funds. The balance at January 1, 2011 was \$904. There were \$145,188 in receipts and \$98,040 in disbursements. The ending balance as of December 31, 2011 was \$48,052.

FRANKLIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note. 6. Donations Account

The Franklin County Sheriff maintains an account for donations, which he opened in 2011. The balance at January 1, 2011 was \$0. There were \$2,305 in receipts and \$1,981 in disbursements. The ending balance as of December 31, 2011 was \$324.

Note. 7. Operation Lifesaver Account

The Franklin County Sheriff maintains an account for Operation Lifesaver. The balance at January 1, 2011 was \$1,584. There were \$1,464 in receipts and \$1,520 in disbursements. The ending balance as of December 31, 2011 was \$1,528.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ted Collins, Franklin County Judge/Executive
The Honorable Pat Melton, Franklin County Sheriff
Members of the Franklin County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Franklin County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated November 20, 2012. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Franklin County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying comments and recommendations as items 2011-01, 2011-02, and 2011-03 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



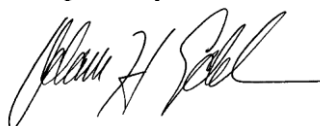
Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Franklin County Sheriff's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Franklin County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

November 20, 2012

COMMENTS AND RECOMMENDATIONS

FRANKLIN COUNTY
PAT MELTON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2011

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2011-01 The Sheriff Should Improve Controls Over Cash Used For Drug Buys

During our review of controls over cash used for drug buys, we determined the following:

- cash was held for several months at a time, without any cash counts being performed to verify the cash balance held (specifically \$2,000 was held from August 2011 to December 2011, with approximately \$500 being used each month), and
- no reconciliations of cash on hand were done.

During calendar year 2011, the Sheriff withdrew \$7,070 in cash for drug buys. Of the \$7,070, \$5,690 was used for drug buys in 2011, leaving a balance of \$1,380 at December 31, 2011. The Sheriff withdrew \$11,500 in 2012 for drug buys. \$11,090, was used, leaving a balance of \$1,790 as of August 9, 2012. The auditor requested the Sheriff to count the cash being held at the time to reconcile to the balance of \$1,790, as calculated. There was \$1,236 on hand at that time. The cash box was \$554 short. The difference was reconciled. First, \$500 was found in a file drawer with the request for the cash to be used for drug buys. Second, the Sheriff's deputy recalled that he did not have any documentation to support a drug buy he and another deputy had done in July 2012. So, the auditor spoke with him and the other deputy to verify the amount they recalled using, which resulted in \$44 for drug buys. Finally, this left a difference of \$10, which the Sheriff's deputy put in the cash box from his own personal funds.

The lack of documented oversight related to cash transactions, significantly increases the risk of misuse of funds.

We recommend the following related to controls over cash used for drug buys:

- The Sheriff should not hold cash for drug buys when one is not scheduled, but random cash counts should be performed and documented to ensure all cash is accounted for properly,
- Any cash left over from drug buys should be deposited in the bank promptly, and
- The Sheriff should have reconciliations performed on a monthly basis to verify the cash amounts requested for drug buys are requested appropriately, and are either used for those purposes as verified by supporting documentation, or the cash is deposited in the bank promptly.

Sheriff's Response: Monthly reconciliations are now standard procedure. Random reconciliations occur quarterly. Any cash left over from drug buys is now stored in a secure location at the Sheriff's office.

FRANKLIN COUNTY
PAT MELTON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2011
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2011-02 The Sheriff Should Ensure That Gasoline Charges Are Verified For Reasonableness And That The Review Is Documented

We tested \$58,654 of the \$121,939 in gasoline expenditures for 2011. We noted that supporting transaction detail reports for the monthly charges are not maintained. Thus, there is no evidence of a review of the individual transactions for gasoline charges. Upon inquiry, the Sheriff's staff provided us with all twelve (12) months of the transactions detail reports for the gasoline charges. We reviewed six of the reports and found the following:

- several odometer errors in which the odometer readings provided at each fill up were not in consistent, ascending order,
- one unit had entered the unit number for odometer readings on all transactions for each month reviewed, and
- various instances in which it appears the same unit used two different cards.

Gasoline is a significant expenditure for the Sheriff's office and charges should be reviewed monthly to ensure the charges are reasonable and of proper use for the Sheriff's office operation. The lack of review of charges significantly increases the risk of fraudulent charges occurring without being noticed.

We recommend:

- the Sheriff implement procedures to review the monthly gasoline transaction details to verify that all charges are reasonable and necessary for the Sheriff's office operations,
- the review of charges include a verification that odometer readings are consistent for the unit and card used from month to month and if there is a discrepancy, that this be documented in detail with the transaction report as to why there was a difference in the odometer readings for a particular card and/or unit number, and
- the Sheriff develop and implement written policies regarding the appropriate use of Sheriff's office vehicles, the correct use of gasoline charges to the Sheriff's fleet one account, to include the necessity of each card user reporting accurate odometer readings on each transaction, procedures for how cards will be assigned to units and safeguarding of those cards to ensure appropriate use, and detail of disciplinary steps that will be taken if Sheriff's office employees are found to be making inappropriate charges to their fleet one account.

Sheriff's Response: Charges shall be reviewed by administration and will be documented in memo form.

FRANKLIN COUNTY
PAT MELTON, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2011
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2011-03 The Sheriff's Office Has A Lack Of Segregation Of Duties Related To Receipts And Bank Reconciliations

During the review of controls related to receipts, we determined that there is a lack of segregation of duties. The same staff person collects cash, prepares the daily checkout sheet and deposit ticket and records the receipts in the ledger. We also determined there is a lack of segregation of duties related to controls over bank reconciliations for the donations account and operation lifesaver account. We noted the same person prepares and signs the checks and performs the bank reconciliations. The lack of segregation of duties increases the risk of material misstatement due to error or fraud.

We recommend the Sheriff either segregate the duties related to receipts and bank reconciliations, or implement procedures to document a review of the daily checkout sheets, deposit tickets and bank reconciliations completed by himself or another staff person.

Sheriff's Response: Person other than the one collecting, preparing daily check-out sheet, deposit tickets and receipts will review and initial. Will be spot checked by Sheriff and initialed.

